

HOUSING MARKET OUTLOOK

St. Catharines-Niagara CMA



CANADA MORTGAGE AND HOUSING CORPORATION

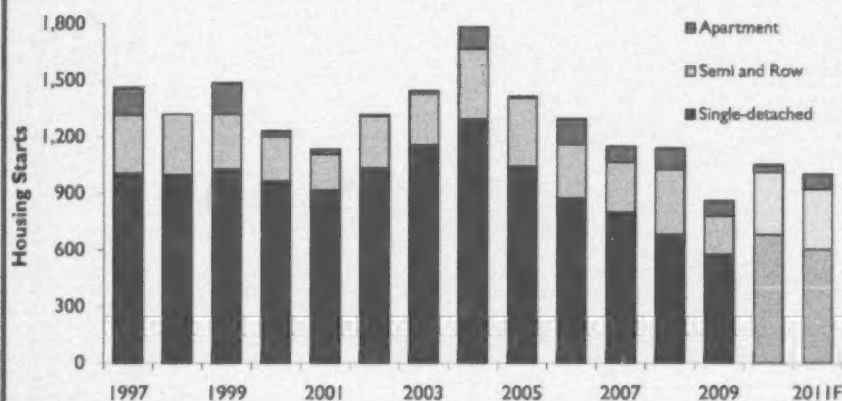
Date Released: Fall 2010

Market at a Glance

- Existing home sales will moderate slightly in the St. Catharines-Niagara CMA, reaching 5,700 units in 2011. After trending lower in the latter part of 2010, sales will flatten out in early 2011 before rising through the second half of the year.
- While prices have eased in recent months, prices should stabilize before growing through 2011.
- Starts in 2011 will be down five per cent to 1,000 units as new home construction will be impacted by the resale market cool-off in the latter part of 2010.

Figure 1

Housing Starts to Moderate in 2011



Source: CMHC

¹ The forecasts included in this document are based on information available as of October 8, 2010.

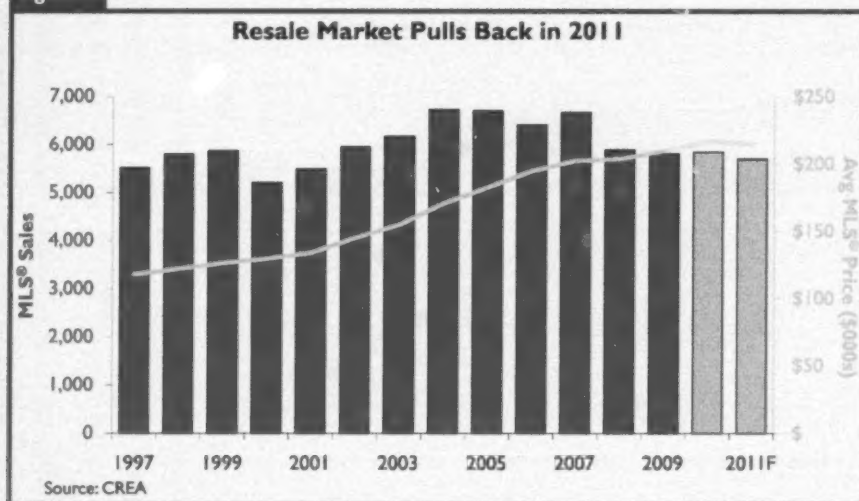
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Figure 2



Resale Market

Resale activity takes respite

After rising for most of the first half of the year, sales of existing homes dropped in the third quarter. They will trend down again in the fourth quarter, bottom out in early 2011 and gradually move up through the end of 2011. Many buyers, who otherwise would be buying in late 2010 given the still favourable buying conditions, had already purchased early in the year. This "pull-forward" effect on sales resulted in higher sales activity earlier in 2010 while dampening demand later in the year. Resale market conditions will stabilize as buyers and more first-time buyers return to the market in 2011.

In 2011, nearly flat mortgage rates will push mortgage payments down slightly, improving affordability due to a projected lower resale price and increase in average household income.

This will cause the gap between required and actual income to widen, implying a slight improvement in affordability which will support recovery in first-time buying activity.

Despite the relatively high median age of Niagara's population compared to the other five major centres in Ontario, the share of workers who are 15 to 24 years of age is second only to the Kitchener-Cambridge-Waterloo CMA. Demographic projections also show that the 25 to 34 age group in Niagara is one of the few which will be growing over the next two years. This will help to recover first-time home buying activity. Since the extra amount paid for a new home compared to an existing home is relatively higher in Niagara than in other areas, most first-time buyers will buy a home in the resale market. Financial market recovery will help restore the wealth of older people. This could add to housing demand, mostly for new homes but also resale homes.

New listings in 2011 will drop from high levels in 2010 that reflected the presence of more repeat buyers in the market. Steady price increases motivated many of them to list their homes in 2010. As new listings will decline slightly faster than sales in 2011, the resale market will tighten up after the lax conditions which prevailed at the tail end of 2010. After peaking in the mid-year of 2010, the average resale price will move down in the rest of the year in line with the easing resale market activity. The average price will flatten out in early 2011 before posting gains later in the year. These gains, however, will not be sufficient to raise the annual average price above its level in 2010, since early in that year, prices soared to all-time highs. Some of the price moderation next year will be attributable to the price composition of homes being sold as relatively more homes will be bought by first-time buyers.

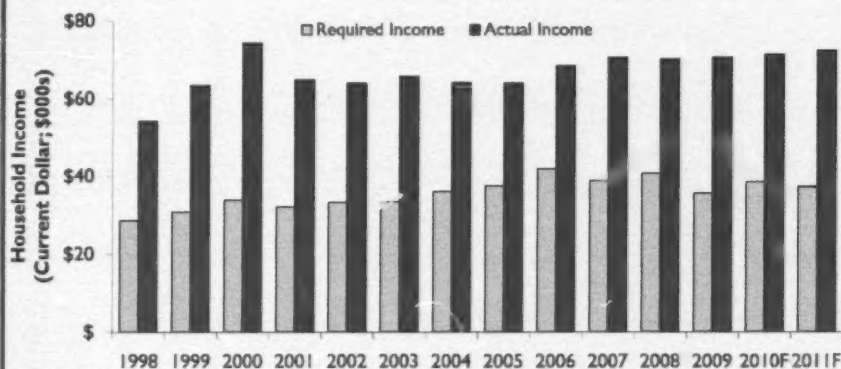
New Home Market

Housing starts to moderate

Low inventories, affordable mortgage rates and the presence of many repeat buyers in the market in 2010 will keep homebuilders active for the rest of the year. However, with most home buyers satisfying their needs in the resale market during late 2010, new home demand will shrink. New home construction will then moderate in 2011, but as housing demand picks up in the second half of the year, housing starts will trend higher again through the end of next year.

¹ Required income is mortgage carrying costs on an average-priced MLS® home divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the forecast of posted fixed five-year mortgage rate and 35-year amortization for a mortgage loan.

Figure 3

Required Income Grows Slower Than Actual Income

Source: CMHC, Statistics Canada, CREA

Nearly flat population growth continues to limit new home construction, which is unlikely to return to the levels reached in the earlier part of the decade. However, some demand for new homes will come from the people who move to Niagara from other areas, primarily the Greater Toronto Area and Hamilton area, for retirement or semi-retirement. Despite strong price gains in 2010, these people will find the housing in the region still affordable. They can capitalise on the price difference between their current home and a new home in St. Catharines-Niagara and at the same time improve their quality of housing – newer homes, convenient layouts, bigger lots and more green space.

As market conditions stabilise throughout 2011, the share of single-detached homes in total starts will resume its downward trend, in place since the year 2000. As land availability and demographic changes necessitate intensification, more higher-density housing will be started.

According to demographic projections,

Niagara's population in the next couple of years is expected to increase strongly in the 50-plus age group. As the population ages, more empty-nester households will opt for low-maintenance housing, such as condominium townhouses. Going forward, there will be growing demand for new homes geared to comfortable adult living, since the oldest baby boomers will turn 65 in 2011. This trend will not peak for some time, since most baby boomers are still only in their late 40s or early 50s. Condominium apartment development too will have a future in the region, as smart growth concepts in the densely populated areas of the larger municipalities of St. Catharines and Niagara Falls will make condo living a feasible option for many first-time buyers and downsizing buyers alike.

Economic Factors

Employment gradually picks up

Although migration is expected to expand, population growth will remain virtually flat continuing the trend of

the past few years. This implies that labour force growth will be limited, and as employment trends up to recoup job losses, the unemployment rate will edge down.

The manufacturing industry or goods-producing sectors at large continue to pose challenges for the local employment. Still, by 2011 employment will be just three per cent shy of the peak level of over 200,000 reached in early 2008. A lot of new jobs will be created in the high-tech, health, trade and tourism sectors. The latter two industries in the past used to be more dependent on the US economy, but domestic tourists are partially replacing visitors from the US, pushing up demand for these services. Also, in recent quarters, international tourism from Asia/Pacific region, notably from China and Australia, has been on the rise and Niagara welcomed its share of these tourists. Still, weak US consumer demand and the increasing value of the Canadian dollar vis-à-vis its American counterpart will somewhat hamper the growth of employment in the tourism sector in the short-run.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed to be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary
St. Catharines-Niagara CMA
Fall 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	6,668	5,896	5,808	5,850	0.7	5,700	-2.6
MLS® New Listings	11,710	12,428	11,691	12,200	4.4	12,000	-1.6
MLS® Average Price (\$)	202,314	203,647	209,563	217,000	3.5	215,000	-0.9
New Home Market							
Starts:							
Single-Detached	798	680	574	680	18.5	600	-11.8
Multiples	351	458	285	370	29.8	400	8.1
Semi-Detached	60	56	42	50	19.0	50	0.0
Row/Townhouse	207	288	164	279	70.1	270	-3.2
Apartments	84	114	79	41	-48.1	80	95.1
Starts - Total	1,149	1,138	859	1,050	22.2	1,000	-4.8
Average Price (\$):							
Single-Detached	342,933	375,998	368,423	375,000	1.8	380,000	1.3
New Housing Price Index (% chg.)	4.1	4.3	-0.6	1.0	-	2.0	-
Rental Market							
October Vacancy Rate (%)	4.0	4.3	4.4	4.2	-0.2	4.0	-0.2
Two-bedroom Average Rent (October) (\$)	765	777	804	820	-	835	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	193,500	197,400	185,100	191,500	3.5	194,000	1.3
Employment Growth (%)	1.7	2.0	-6.2	3.5	-	1.3	-
Unemployment rate (%)	6.8	7.4	10.4	9.0	-	8.5	-
Net Migration	-226	512	386	460	19.2	550	19.6

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St. Catharines, Niagara, and Welland boards

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